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DEPT FOR WHA/CAR, WHA/EPSC, EB/TPP/BTA/EWH, EB/OFD/OMA;
TREASURY FOR J LEVINE; DEPT PASS USAID/LAC; DEPT PASS USTR
(A MALITO)

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TAGS: DR ECON EFIN PGOV ETRD
SUBJECT: DOMINICAN CONGRESS FINALLY APPROVES 2006 BUDGET

¶1. SUMMARY: On February 15, 2006 the Dominican Congress approved the 2006 budget after obtaining minor changes from the Executive. The six-week delay resulted from political differences over the administration,s desire to continue a levy on exchange commissions, considered by legislators to be a tax not authorized by Congress. Amendments required by Congress amounted to a modest increase in expenditures of less than half of one percent, to be funded by more effective tax collection. The administration reinstated congressionally desired patronage to 900 non-governmental organizations. The budget includes a discretionary fund for the President of 5 percent of 2006 revenue, replacing the previous practice of allowing the President discretion to spend all revenue in excess of projected monthly collections. End summary.

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BACKGROUND
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¶2. On February 15, 2006 the last day of regular sessions the Dominican Congress completed approval of the 2006 budget with Senate passage of the amended budget. The budget is a thick document, scrupulously detailed and balanced, drawn up with the "Integrated Financial Management System" underwritten in part by the Inter-American Development Bank. Delay in approving the budget resulted from congressional refusal in December 2005 to approve all measures in a tax reform package. The reform package approved by Congress contained measures estimated to yield 25 billion pesos, 7 billion pesos short of the revenue-neutral budget drawn up by the executive upon the assumption of revenue changes with the expected entry into force in mid-2006 of the DR-CAFTA trade agreement.

¶3. After its tax reform goals were frustrated, the Fernandez administration announced in late December 2005 its intention to continue for six months the "exchange rate commission," an extra-congressional levy on imports imposed by the Monetary Board of the Central Bank. Senate President Andres Bautista insisted at the time that the levy was illegal and unacceptable.

¶4. The administration and congressional leadership met repeatedly in January and early February 2006 to negotiate budget amendments that would satisfy congressional concerns. Partisan party politics were an important factor, since the opposition PRD and PRSC parties control congress. All parties are preparing candidacies for the May 2006 congressional and municipal elections.

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ELEMENTS OF THE AMENDED BUDGET
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¶5. NGOs. The Dominican budget traditionally includes a long list of government subsidies to non-governmental organizations of all types across the country, down to the level of a chess club in the northern coastal town of Nagua. The original Fernandez budget cut 900 NGOs from this list, probably with an eye to reducing the patronage of opposition congressmen. The February addendum reinstituted all of these.

¶6. National Election Commission (JCE). Head of the PRD National Election Commission Luis Arias had pressed publicly for restoration of modest amounts cut from the JCE budget, asserting that without restoration the May elections would be at risk. The revised budget provides an additional 94 million pesos (USD 2.8 million) for the JCE.

¶7. CAFTA-DR Duty Changes. The Tax Reform Bill of December, 2005, raised a number of domestic taxes at the same time that it provided for changes, reductions, and elimination of duties on a lengthy, specific list of customs categories, in keeping with the obligations of the regional trade agreement. These changes in tariff treatment are to take place upon the entry into force of CAFTA-DR. The budget includes an item of "taxes on imports" of 13.4 billion (about USD 400 million). Since both in its first and amended proposals the government stated that the agreement would enter into force on July 1, it appears that a significant proportion of the funds under this revenue item represents collections on imports of U.S. merchandise during the first six months of the year.

¶8. The Exchange Commission. An addendum to the budget states that the Monetary Board will derogate completely the decrees that established the exchange commission. This levy on the CIF value of imports was created in 1991 and increased to 13 percent in January, 2004. The WTO Dispute Settlement Body found in May 2005 that the levy was prohibited under Article 3 of the GATT, and in August 2005 plaintiff country Honduras agreed to grant the Dominicans 24 months to end it. As of March 3 the Monetary Board has not yet announced this action.

¶9. The Transitory Tariff. In place of that WTO-prohibited levy the budget law enacts a transitory six-month tariff of 13 percent of CIF value of imported goods (on the face of it, a measure equally incompatible with WTO obligations.) Collections from this levy appear to be included in the revenue line of 12.7 billion (USD 384 million) from "other taxes on foreign trade," virtually identical with the yield from "taxes on imports." Considering that by far the greatest amount of dutiable imports originates in the United States, by continuing duties for half a year and at the same time applying the transitory tariff, the budget is loading the equivalent of a full year of customs duties into six months. If entry into force is achieved on July 1, the authorities will still face the need for serious restructuring for 2007, either in expenditures or in revenues. If the implementation date should slip, as seems entirely possible given the Dominican Republic's trailing place in the implementation queue, the government will continue to collect regular customs duties on U.S. goods -- a clear "bonus" for every month of delay.

¶8. Millennium Challenge Goals. The Embassy,s very preliminary estimates of 2006 GDP suggest that amounts programmed for primary level public education are roughly 2.5 percent of GDP and amounts for public health care approximately 3 percent of GDP. If so, this could mean that the Dominicans might meet MC Corporation criteria for education and have moved significantly toward the mid-point for MCC criteria for public health.

¶9. Presidential Discretionary Spending. Earlier budgets authorized the President to allocate at his discretion revenues exceeding estimates for monthly collections. Following IMF advice, the new budget eliminates Presidential discretion over monthly revenue in excess of budget, replacing it with a fixed Presidential Discretionary Fund of 5 percent of the budget (9.878 billion pesos, or about USD

291 million.). The budget also specifies a fund of 1 percent (USD 50 million) for national emergencies. The addendum stipulates that amounts in the discretionary fund not expended during the calendar year may be held over to subsequent fiscal years.

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COMMENT
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¶10. Budget discussions were generally businesslike, aimed at solving the impasses. The technicians and congressional leadership generally did not take partisan positions on the issues. In contrast, Fernandez,s chief of staff Danilo Medina and PRD president Ramon Albuquerque regularly made assertions aimed at the coming political campaign. Both sides demonstrated firmness, budget numbers budged hardly at all and the package was approved on the last day of the regular legislative session, February 15, thereby fulfilling a key requirement for IMF Board review in March of the revised terms of the standby agreement.

¶11. Following is a summary chart of the budget as approved, expressed in billions of Dominican pesos. One billion pesos is approximately equal to USD 29 million.

Budget	Amount pesos billions	pct GDP (est.)
Total	190.806	24.46
Senate	1.106	0.14
House of Representatives	2.580	0.33
Presidency	18.802	2.46
President,s Discretionary Fund	9.878	1.27
NOTE: above 2 items include:		
Office of the President	7.7	
258 public works proj.	2.4	
Transport Reform	3.0	
--incl for Metro 1.8		
contributions to NGOs	2.8	
Social Programs	4.1	
Technical Svcs	4.4	
Interior & Police	5.938	0.82
Armed Forces	8.450	1.11
Foreign Relations	2.242	0.30
Finance	4.481	1.01
Education	18.627	2.45
Public Health & Social Assistance	18.018	3.03
Sports, Physical Education & Recreation	1.498	0.22
Labor	0.732	0.17
Agriculture	4.546	0.69
Publications & Communications	4.031	0.71
Industry & Commerce	.827	0.11
Tourism	.583	0.07
General Procurement	1.512	0.19
Women	0.224	0.03
Culture	0.879	0.11
Youth	0.186	0.02
Environment & Natural Resources	2.041	0.36
Education, Science & Technology	2.711	0.36
Justice	3.166	0.41

Junta Central Elections 1.800 0.24
Accounting Office 0.357 0.05
Public Debt 19.139
4.53
Subsidies and Pensions 17.054
3.00
Independent Governmental Agencies 0.930 0.17
KUBISKE